Remarks

Claims 1-19 and 21-26 are pending. Claims 1 and 26 have been amended to more particularly point out and distinctly claim the subject matter that Applicant regards as his invention.

Objections to Specification

In response to the Examiner's objections to the specification, the informalities cited by the Examiner have been corrected.

Rejections Under 35 USC 102, 103 (Claims 1-19, 21-26)

The Examiner has rejected independent claims 1-26 for anticipation/obviousness based on King (in the case of claims 1-3, 5-23 and 26) or King in combination with Creditex (in the case of claims 4 and 24-25). With respect to several claims, the Examiner has failed to establish a *prima facie* case of anticipation/obviousness, because aspects recited in the claims are not fairly shown or suggested by the prior art. In addition, Applicant has amended claim 1 (from which claims 2-25 depend) and claim 26 in order to further differentiate the claims from King.

Turning now to the standard for establishing a *prima facie* case of obviousness, Section 2143.03 of the Manual of Patent Examining Procedure (MPEP) provides as follows:

To establish *prima facie* obviousness of a claimed invention, all the claim limitations must be taught or suggested by the prior art. *In re Royka*, 490 F.2d 981, 180 USPQ 580 (CCPA 1974). "All words in a claim must be considered in judging the patentability of that claim against the prior art." *In re Wilson*, 424 F.2d 1382, 1385, 165 USPQ 494, 496 (CCPA 1970). MPEP, Section 2143.03 (Emphasis added).

* * *

To establish a *prima facie* case of obviousness, three basic criteria must be met. First, there must be some suggestion or motivation, either in the references themselves or in the knowledge generally available to one of ordinary skill in the art, to modify the reference or to combine reference teachings. Second, there must be a reasonable expectation of success. Finally, the prior art reference (or references when combined) must teach or suggest all the claim limitations. The teaching or suggestion to make the claimed combination and the reasonable expectation of success must both be found in the prior art, not in applicant's disclosure. *In re Vaeck*, 947 F.2d 488, 20 USPQ2d 1438 (Fed. Cir. 1991). MPEP, Section 2142.

* * *

If proposed modification would render the prior art invention being modified unsatisfactory for its intended purpose, then there is no suggestion or motivation to make the proposed modification. *In re Gordon*, 733 F.2d 900, 221 USPQ 1125 (Fed. Cir. 1984) MPEP, Section 2143.01(V).

* * *

To reach a proper determination under 35 U.S.C. 103, the examiner must step backward in time and into the shoes worn by the hypothetical "person of ordinary skill in the art" when the invention was unknown and just before it was made. In view of all factual information, the examiner must then make a determination whether the claimed invention "as a whole" would have been obvious at that time to that person. Knowledge of applicant's disclosure must be put aside in reaching this determination, yet kept in mind in order to determine the "differences," conduct the search and evaluate the "subject matter as a whole" of the invention. The tendency to resort to "hindsight" based upon applicant's disclosure is often difficult to avoid due to the very nature of the examination process. However, impermissible hindsight must be avoided and the legal conclusion must be reached on the basis of the facts gleaned from the prior art. MPEP, Section 2142 (Emphasis added).

1. The Prior Art Fails To Teach A Capacity Creation Module That Determines The Capacity To Absorb Credit Default Swaps For Structuring And Pricing Of Credit-Rating Specific Credit Indexes

As amended, claim 1 recites "a Capacity Creation module for determining the capacity of a defined financial market that includes at least one entity to absorb defined synthetic credit products at a minimum level of default risk, wherein the synthetic credit products include credit default swaps for structuring and pricing of credit-rating specific credit indexes." Claim 26 recites similar limitations. One example of an application of this specific type of credit risk transfer product recited in claims 1 and 26 is described as follows at page 15, line 25 – page 16, line of the Specification:

> A first entity, referred to as the Credit Risk Provider, engages in the business of providing credit risk transfer products to create credit rating-specific indexes by way of a joint venture of other arrangement with a second entity, hereafter referred to as the Structurer, ... [in order to] hold a portfolio of assets and issue securities whose principal and interest will be secured by cash flows of the underlying assets and credit default swaps.

Amended claims 1 and 26 incorporate the limitations of previous claim 20, which specifically referred to credit default swaps for structuring and pricing of credit-rating specific credit indexes. In rejecting claim 20 for obviousness over King, the Examiner acknowledged that King did not specifically disclose the use of credit default swaps for the purpose recited in previous claim 20. Nonetheless, the Examiner reasoned that it would have been obvious to use a credit default swap to offset the recited risk.
In reaching this finding, the Examiner reasoned that "[t]he motivation for using credit derivatives, of which a credit default swap is one, is to transfer risk associated with any known financial instrument."

The use of credit default swaps for structuring and pricing credit-rating specific credit indexes is different from the traditional use of these products for risk transfer

between the swap participants, such as that shown in King. Should the Examiner maintain the rejection of claims 1 and 26, Applicant respectfully requests that the Examiner provide documentary evidence supporting the assertion that the use of credit default swaps to structure and price credit-rating specific credit indexes would have been obvious.

In view of the above, it is respectfully submitted that the Examiner has failed to establish a *prima facie* case of unpatentability with respect to previous claim 20 (or amended claims 1 or 26), because the cited prior art fails to teach all of the recited claim limitations. In particular, the prior art cited by the Examiner fails to disclose credit default swaps for structuring and pricing of credit-rating specific credit indexes, as recited in amended claims 1 and 26. Simply put, claims 1 and 26 should be allowed because the use of credit default swaps for structuring and pricing of credit-rating specific credit indexes, in combination with the other features recited in claims 1 and 26, is novel and not fairly suggested by the prior art.

2. The Prior Art Fails To Teach Market-Driven Interpolated Asset Swap Curves, Market-Driven Interpolated Credit Swap Curves, Equity-Driven Credit Curve Benchmarking, Industry-Specific Credit Curve Benchmarking, Dynamic Credit-Sensitive Interest Swap Curves

Claim 3 recites that "said Pricing Creation module uses internal algorithms for a number of priced/demand curves, including market-driven interpolated asset swap curves, market-driven interpolated credit swap curves, equity-driven credit curve benchmarking, industry-specific credit curve benchmarking, dynamic credit-sensitive interest swap curves, and minimum RAROC requirements." The Examiner has admitted that King fails to disclose market-driven interpolated asset swap curves, market-driven

interpolated credit swap curves, equity-driven credit curve benchmarking, industry-specific credit curve benchmarking and dynamic credit-sensitive interest swap curves. In addition, the Examiner has failed to cite any other prior art references that disclose these claimed limitations. Instead, the Examiner has made an unsupported assertion that "the use of many price/demand curves is old and well known ...."

To the extent that the Examiner is asserting by way of Official Notice that market-driven interpolated asset swap curves, market-driven interpolated credit swap curves, equity-driven credit curve benchmarking, industry-specific credit curve benchmarking and dynamic credit-sensitive interest swap curves are old and well, Applicant respectfully reminds the Examiner of the standard for Official Notice set forth in MPEP §2144.03, which provides as follows:

> ... Official notice unsupported by documentary evidence should only be taken by the examiner where the facts asserted to be well-known, or to be common knowledge in the art are capable of instant and unquestionable demonstration as being well-known. ...
>
> It would not be appropriate for the examiner to take official notice of facts without citing a prior art reference where the facts asserted to be well known are not capable of instant and unquestionable demonstration as being well-known. For example, assertions of technical facts in the areas of esoteric technology or specific knowledge of the prior art must always be supported by citation to some reference work recognized as standard in the pertinent art. *In re Ahlert*, 424 F.2d at 1091, 165 USPQ at 420-21. See also *In re Grose*, 592 F.2d 1161, 1167-68, 201 USPQ 57, 63 (CCPA 1979) ("[W]hen the PTO seeks to rely upon a chemical theory, in establishing a prima facie case of obviousness, it must provide evidentiary support for the existence and meaning of that theory."); *In re Eynde*, 480 F.2d 1364, 1370, 178 USPQ 470, 474 (CCPA 1973) ("[W]e reject the notion that judicial or administrative notice may be taken of the state of the art. The facts constituting the state of the art are normally subject to the possibility of rational disagreement among reasonable men and are not amenable to the taking of such notice.").
>
> Ordinarily, there must be some form of evidence in the record to support an assertion of common knowledge.... If such notice is taken, the basis for

such reasoning must be set forth explicitly. The examiner must provide specific factual findings predicated on sound technical and scientific reasoning to support his or her conclusion of common knowledge. See *Soli*, 317 F.2d at 946, 37 USPQ at 801; *Chevenard*, 139 F.2d at 713, 60 USPQ at 241. The applicant should be presented with the explicit basis on which the examiner regards the matter as subject to official notice and be allowed to challenge the assertion in the next reply after the Office action in which the common knowledge statement was made.

Applicant traverses the Examiner's rejection of claim 3. In particular, Applicant disputes the Examiner's position that the use in a Pricing Creation module of "market-driven interpolated asset swap curves, market-driven interpolated credit swap curves, equity-driven credit curve benchmarking, industry-specific credit curve benchmarking and dynamic credit-sensitive interest swap curves are old and well" as set forth in pending claim 3, constitutes common knowledge or was well-known in the art. The Examiner must provide documentary evidence supporting the assertion that these aspects of claim 3 are well known in the next Office Action if the rejection is to be maintained.

3. The Prior Art Fails To Teach Expected Loss On A **Senior Tranche** Of The Capital Of An Entity That Sells Credit Risk Transfer Products Based On A Dynamic Cash Flow Simulation Model For A Portfolio Of Credit Risk Transfer Products

Claim 8 recites "determining the expected loss on a senior tranche of the capital of an entity that sells credit risk transfer products based on a dynamic cash flow simulation model for a portfolio of credit risk transfer products." In rejecting this claim for obviousness, the Examiner has cited to King at col. 10, lines 1-29; col. 11, lines 39-60 and col. 12, lines 40-56. However, these portions of King fail to mention the "senior tranche" of the capital of an entity as required by claim 8. Since this limitation is not present in the cited reference, it is respectfully submitted that the Examiner has failed to establish a *prima facie* case of obviousness with respect to claim 8.

5. The Prior Art Fails To Teach The Use of Credit Default Swaps to Credit Enhance Letters of Credit or Financial Guarantee Insurance Policies

Claim 11 recites "using credit default swaps to credit enhance commercial bank letters of credit." Claim 12 recites "using credit default swaps to credit enhance financial guaranty insurance policies." These aspects of the present invention are disclosed at, for example, page 13, line 14 – page 14, line of the Specification, as follows:

> 8. Providing Credit Enhancement to Commercial Bank Letters of Credit Issued by Second Entity
>
> A first entity, referred to as the Credit Risk Provider, engages in the business of providing credit enhancement to commercial bank letters of credit issued by a second entity, hereafter referred to as the Primary Provider, through the issuance of a credit default swap between the Credit Risk Provider and the Primary Provider. The credit default swap provides for payment by the Credit Risk Provider to the credit beneficiary should the Primary Provider fail to honor its obligation under its letter of credit.
>
> 9. Providing Credit Enhancement to Financial Guaranty Insurance Policies
>
> A first entity, referred to as the Credit Risk Provider, engages in the business of providing credit enhancement to financial guaranty insurance policies by way of an arrangement with a second entity, hereafter referred to as the Primary Provider, through the issuance of a credit default swap provides for payment by the Credit Risk Provider to the credit beneficiary should the Primary Provider fail to honor its obligation under its letter of credit.

In rejecting claims 11-12, the Examiner has acknowledged that King fails to disclose the use of credit default swaps to enhance letters of credit or financial guarantee insurance policies. Nonetheless, the Examiner found that it would have been obvious to "use a credit derivative product to offset the risk associated with each of the types of risk." In reaching this finding, the Examiner reasoned that "[t]he motivation for using credit derivatives, of which a credit default swap is one, is to transfer risk associated with

any known financial instrument."

It is respectfully submitted that the use of credit default swaps to enhance letters of credit or financial guarantee insurance policies is different from the traditional use of these products for risk transfer between the swap participants. Should the Examiner maintain the rejection of claims 11-12, Applicant respectfully requests that the Examiner provide documentary evidence supporting the assertion that the use of credit default swaps to enhance letters of credit or financial guarantee insurance policies would have been obvious.

6. The Prior Art Fails To Teach The Use of Credit Default Swaps to Structure and Price the Products Recited in Claims 14-90 and 21

Claims 14-19 and 21 recite using credit default swaps in the structuring and pricing of credit-linked notes, principal protected notes, convertible bonds, equity options, collaterialized debt obligations, industry-specific credit indexes, credit-rating specific credit indexes and geography-specific credit indexes. In rejecting claims 14-21, the Examiner has acknowledged that King fails to disclose the use of credit default swaps to structure and price and of the recited financial products. Nonetheless, the Examiner found that it would have been obvious to "use a credit derivative product to offset the risk associated with each of the types of risk." In reaching this finding, the Examiner reasoned that "[t]he motivation for using credit derivatives, of which a credit default swap is one, is to transfer risk associated with any known financial instrument."

It is respectfully submitted that the use of credit default swaps in the structuring and pricing of credit-linked notes, principal protected notes, convertible bonds, equity options, collaterialized debt obligations, industry-specific credit indexes, credit-rating specific credit indexes and geography-specific credit indexes is different from the

traditional use of these products for risk transfer between the swap participants. Should the Examiner maintain the rejection of claims 14-19 and 21, Applicant respectfully requests that the Examiner provide documentary evidence supporting the assertion that the use of credit default swaps to structure and price credit-linked notes, principal protected notes, convertible bonds, equity options, collaterialized debt obligations, industry-specific credit indexes, credit-rating specific credit indexes and geography-specific credit indexes would have been obvious.

Conclusion

In view of the above, it is submitted that all pending claims are in condition for allowance. A Notice of Allowance is earnestly solicited.

The Commissioner is hereby authorized to charge any deficiency in the fees due in connection with this filing Deposit Account 50-0310. A duplicate of this authorization is enclosed.

Respectfully submitted,

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